

# Solving the Child Care Crisis: A Shared Responsibility

Public & Private Sector Roles in This Workforce Imperative



## Acknowledgements

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## Introduction

As families face the challenges of insufficient child care availability and lack of affordability, businesses, in turn, face the challenges of hiring and retaining employees. These issues go hand in hand: businesses can't succeed without productive employees, and parents can't maintain their jobs or succeed at work without a robust early childhood system. High-quality child care and early education programs provide parents with the peace of mind they need to be reliable and fully engaged workers. Nowhere are these issues more significant than Illinois, where 70 percent of young children live in households where all available parents are participating in the workforce—about 602,000 children in all.<sup>1</sup>

Effingham County, in south central Illinois, provides a timely snapshot of what's at stake—and the ways that local government and businesses are pitching-in to tackle

child care challenges. The efforts of the local county board, service providers, and a prominent manufacturing firm demonstrate the power of on-the-ground entities in working together toward solutions. They also help to show that the private sector and local government cannot solve the child care crisis alone; economies of scale come into play, and state and federal governments must bring their considerable resources to bear in creating a truly robust and sustainable child care system.

## Longstanding challenges, exacerbated by COVID

Our state and national child care challenges are not new. Even before the pandemic, the lack of affordable, quality care for infants and toddlers alone cost our nation's economy \$57 billion annually<sup>2</sup> and Illinois an estimated \$2.4 billion<sup>3</sup> in lost earnings, productivity, and revenue. Considerations for kids older than 3 could add many billions

more to this price tag. Yet, COVID worsened many of the existing problems related to this crisis, with closures of child care centers, reductions in capacity due to staffing shortages, and the loss of home child care providers making the situation even more urgent.<sup>4</sup> These factors, taken together, have led to 10 percent of the child care supply being shuttered nationwide.<sup>5</sup>

As of June 2022, the child care workforce was still 10 percent below pre-pandemic employment levels, while all other private sector jobs have recovered.<sup>6</sup> A recent survey by the National Association for the Education of Young Children revealed that eight in 10 providers said they were experiencing a staffing problem, and half said hiring was harder than it had been before the pandemic.<sup>7</sup> The impacts of the staffing challenges are substantial, with 50 percent of programs serving fewer children. One-third have a longer waitlist or are unable to open classrooms, and 24 percent have reduced their operating hours. The survey also indicated that child care staff often leave the field due to low pay and lack of benefits.

Even as staffing challenges make child care less accessible, rising costs make it even less affordable for working parents. Child care costs have risen from 5 to 20 percent since the onset of the pandemic.<sup>8</sup> Between the rising cost of child care and the impact of inflation, parents face steep affordability challenges. As a result, over half of working parents now spend more than 20 percent of their income on child care.<sup>9</sup> As a response to these rising child care costs, some parents are finding it more cost-effective to reduce working hours or leave the workforce altogether.<sup>10</sup>

“The pandemic increased child care concerns for job seekers and employers, and they remain a pressing issue today; ask any working parent or HR professional.”



**LoRayne Logan**  
President/Founder,  
Workplace Staffing  
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The pandemic had a particularly devastating impact on female labor force participation. Although women continue to return to the labor force in pandemic recovery, with 20 straight months of job growth between January 2021 and August 2022, women are still down 98,000 jobs since February 2020, while men have already recovered their COVID era-job losses.<sup>11</sup> On top of that, COVID had a notably disproportionate impact on women of color, with Black mothers' labor force participation declining at a rate more than double that of white mothers.<sup>12</sup>

In the face of these dual challenges of availability and affordability, state and federal governments stepped-up to help. Hundreds of millions of dollars in federal COVID-relief helped fuel many of Illinois state officials' responses to the child care crisis—for example, extending grants to help keep cash-strapped providers afloat.

Working with lawmakers, Gov. J. B. Pritzker also has expanded low-income families' eligibility for child care subsidies and established one-time bonuses for many undercompensated early childhood staff.

At the same time, some local communities have been coming together and businesses are getting creative to address their child care needs. By and large, businesses want to be part of the solution to the child care struggles faced by their employees, but many are hard-pressed to find effective solutions that they can afford and sustain over time.

A ReadyNation national survey of more than 400 senior business leaders taken June 2021 found that, while about two-thirds of employers were likely to expand child care supports offered to their employees post-COVID, many cited barriers to doing so.<sup>13</sup> More than three-quarters of respondents said that federal or state government incentives, including tax credits, would increase the likelihood that their company would expand child care supports offered to employees.

Businesses have an important role in solving the child care crisis. However, they cannot do it alone. Employer incentives must be coupled with robust public investments, including subsidies to families with low incomes and direct assistance to child care providers. Business leaders and policymakers must partner to address the child care crisis.

### **Local communities and businesses come together to address child care needs**

How one Illinois community has responded to the lack of affordable, high-quality child



care options—and the corresponding impact on its local businesses—highlights the ways in which this issue can and should be addressed on multiple fronts. Effingham County has many of the same child care struggles that can be observed around the state, but it also serves as a prime example of how local governments and businesses, working with state and federal resources, can play an appropriate role in addressing the child care needs.

### **Landscape of Effingham County**

In many cases, children in Effingham County and other rural areas across Illinois are less likely to have access to child care programs than children in non-rural areas. While 58 percent of Illinoisans live in a child care “desert,” where there are more than three children under age 5 for each licensed child care slot, in rural communities the figure is 69 percent.<sup>14</sup>



The pandemic brought the child care crisis in Effingham County into stark relief in 2020-2021. This spurred a group of more than 30 stakeholders—mostly local non-profits, child care providers, and parents—to come together with the help of an organizing entity bearing early care and education expertise, Illinois Action for Children. Through that organization’s Community-Based Planning for Expansion project, the group was able to identify the major gaps in its local child care system.<sup>15</sup>

Overall, according to the 2020 U.S. Census, Effingham County was home to 2,341 children birth to 6 years of age. The most recent data for licensed child care capacity confirmed that there were 779 early childhood slots available in the county, which could provide care for only 33 percent of young children that age.<sup>16</sup>

When the analysis focused specifically on children from families who would qualify for government subsidized child care in the form of the Illinois Child Care Assistance Program (CCAP), it found that there were a minimum of 255 infants and toddlers (up to age 2) and another 318 preschoolers for whom no child care slots were available.

The Community-Based Planning for Expansion project and the stakeholders involved spent almost a year studying early childhood programs’ capacity and also found that the local child care workforce was dwindling. Based on its assessment of these urgent local needs, the group requested funding from the county board in the form of federal American Rescue Plan Act dollars to support the early childhood workforce to stem the tide of staff loss, to stabilize child care.

### **Local government joins with care providers & other civic leaders to plan solutions**

In response to these pressing local child care challenges, the Effingham County Board established a Childcare Research Committee that began its work in March 2022.<sup>17</sup> This committee was formed to research and identify underlying issues in local child care services, develop a plan to overcome these workforce related hurdles, and work with the county board on implementation.<sup>18</sup>

The board drew clear connections between the child care crisis in the area and the ability of local businesses to hire. News reports noted that “earlier in the year the Effingham county board put together a committee to help fix hiring issues around the county, but when they looked into the issue they found it wasn’t because people

didn't want to work. The board learned people don't have anyone to watch their kids."<sup>19</sup> One board member added, "Businessmen tell us they would have a lot more people come to work if they had child care."<sup>20</sup>

The committee had representation from the county board itself, as well as private industry leaders, child care providers, local government officials, and parents. They identified two key priorities: supporting and strengthening existing child care providers and helping families close the child care affordability gap when they don't have access to other sources of assistance.<sup>21</sup>

All the work of the committee and the preceding, community-based planning group paid off when the county board earmarked \$400,000 for child care programs. Of that amount, \$150,000 would create a Gap Scholarship program that will provide financial relief to families who are not eligible for CCAP subsidies because they earn just enough to bar them from receiving state level assistance, but who still lack access to affordable child care.<sup>22</sup> Through this program, families will receive \$200 a month to help them pay for child care, if they meet the necessary requirements. This funding was expected to reach approximately 118 families in Effingham County.<sup>23</sup>

Another \$150,000 would target expanding and maintaining the early childhood workforce. The main objective is to retain current child care workers and attract new workers by offering financial incentives every six months, based on the years of service at the same child care facility. The final \$100,000 was committed to increasing the capacity and quality of the county's child care services.<sup>24</sup>

“ Although businesses and local governments can develop some child care solutions, we can't solve its broad, systemic challenges alone: State and federal help is crucial.



**Courtney Yockey**  
President and CEO,  
Effingham Regional Growth  
Alliance and Chair of the  
Effingham County Childcare  
Research Committee

Effingham County is moving quickly to implement its plans. In September 2022, the county board approved an allocation of \$35,535 to initiate the "Increase Capacity" program of strategic business planning. Existing and prospective child care providers will attend a 12-hour workshop hosted by Project Child. Workshop participants develop a business plan and continuous quality improvement plan. Upon completion of the workshop, the provider would be eligible for a grant to assist in initiating the plans.<sup>25</sup>

This first allocation to this program will assist in the strengthening and retention of 489 existing child care slots and the creation of an estimated 246 new child care slots. These new slots will increase local capacity by an estimated 10 percent.<sup>26</sup>

In these ways, Effingham County provides a good example of how local leaders and communities can come together to identify gaps and challenges in child care and move forward to address the needs. But another key element has been their ability and dedication in leveraging federal funding to shore up their child care sector and increase capacity. This also highlights the vital importance of the public sector in local and private-sector efforts to pursue child care solutions.

### **Stevens Industries: A local business rolls-up its sleeves to meet child care challenges**

As local child care challenges deepened with the pandemic, employers have had increasing problems in recruiting and retaining staff. This is a trend across the state and nationally with the Society for Human Resource Management noting that child care has risen to the top of HR trends in 2022.<sup>27</sup>

One Effingham County company—Stevens Industries—decided to take the issue head on by starting an on-site child care center and actively participating in community work regarding child care challenges by investing staff time in the county board committee.

Stevens is a 66-year-old manufacturing firm in Teutopolis that makes furniture and other equipment that coincidentally is often used by schools and child care centers. Although company officials had talked about developing an on-site child care center for several years, serious planning for the project didn't begin until 2021 when the impact of the pandemic caused steep challenges to the area's child care resources.

"Today's working parents struggle to find reliable and convenient childcare," Todd Wegman, President and CEO commented. An often-overlooked answer to their struggle is offering childcare at the workplace. Adding this as an employee benefit will alleviate stress among Stevens working parents and induce better engagement and productivity."<sup>28</sup>

### **What makes on-site child care possible in this case**

The company undertook a very intentional process to assess the feasibility of on-site child care, employee interest and support, and bringing-on outside expertise to lead the effort. A survey of the company's 500 employees ultimately found that 97 percent of them supported the plan.

Stevens had existing property that allowed them to build a brand new child care center from the ground up to meet the specific needs of the company and that would meet licensing standards. The firm broke ground on the project in December 2021 and completed the project the week prior to opening the center.

Upon opening in October 2022, Stevens' Tot Mate Central had 100 openings for children ages six weeks through pre-kindergarten as well as before and after school care. The slots are available to all employees, regardless of their position in the company, including employees who are grandparents and other relatives. Stevens decided to offer child care to extended, non-parental relatives because they began to see the multi-generational impact of the lack of local child care options when grandparents began discussing leaving the company to provide child care for their grandchildren.



The business is starting by serving first-shift employees with some extra availability for the beginning of the second shift. Down the road, the company plans to assess the feasibility of offering summer programming for school-aged children of employees and child care for second- and third-shift workers.

Tot Mate Central will operate as a subsidiary of Stevens Industries, which allows child care center staff to be company employees. The company has found that its ability to offer higher-than-average child care wages and full company benefits allowed it to fully staff its child care center ahead of the opening.

In addition to making the substantial financial commitment to building its on-site child care center, Stevens Industries also invested in hiring a knowledgeable child care director to shepherd the start-up

process. The director came on board approximately 10 months prior to the center's opening. Having someone with the experience and expertise to navigate the complicated child care licensing process proved essential to the success of the project. The company's child care center officially opened serving 25 children, with more entering the program in the weeks to follow.

### **Investing in child care benefits business**

There is a strong business case to be made for supporting employees with child care benefits. Doing so can lower absenteeism by 30 percent, reduce turnover by 60 percent, increase recruitment, and boost employee productivity, according to the New York-based Early Care and Learning Council.<sup>29</sup>

On-site child care is one option that businesses could implement to attract and



retain employees. Although it has received very little research attention,<sup>30</sup> the limited studies available show on-site care has several other benefits as well, including:

- Increased on-the-job engagement
- Helping companies recoup 50 to 200 percent of operation costs<sup>31</sup>
- Increased work hours for women, potentially leading to career advancement<sup>32</sup>

Companies that offer on-site child care also report having access to a larger talent pool and the ability to access tax credits.<sup>33</sup> However, these businesses cite the high costs of establishing and providing care as the major downside, which likely accounts for the fact that only about 7 percent of U.S. companies offer on-site care.<sup>34</sup> Of larger companies (more than 100 employees), 14 percent offer on-site care, but this is concentrated in certain industries such as IT, higher education, and finance.

Overall, the option to offer on-site child care is not realistic for the vast majority of businesses. Plus, with many fields moving to more hybrid work and fewer employees

coming into a physical office space on a day-to-day basis, on-site child care does not make sense for some business models. Forbes reports that, “With increasing remote work and more widely distributed workforces, employers are now innovating to provide greater flexibility to employees via a new modality called ‘child care as a benefit.’ The employee receives a child care stipend and access to vetted quality child care places near work or home. In turn, the employer benefits from tax credits.”<sup>35</sup>

Businesses have some other options for supporting their employees’ child care needs in their benefit packages, including:

- Flexible hours to accommodate child care needs—especially considering the enormous difficulty that many workers face in finding “off-hours” care during evening and weekend shifts
- Partnerships with local child care programs, with reserved or “purchased” slots for their employees’ children
- Joining with other area businesses to purchase child care slots
- Arranging for back-up child care services when children are ill or a provider is closed or temporarily unavailable
- Flexible spending accounts with guidance for employees on how to use their pre-tax money most effectively for child care costs

## Policy considerations

While businesses clearly have a role to play in child care, and many could play a larger role, they cannot replace the role of government. Small businesses do not have the same capacity to provide on-site child care or some of the other child care benefits that might be provided by larger companies. With fewer than 10 percent of businesses

## Employer tax credits for child care: A policy approach with limitations

Illinois is one of several states that—like the federal government—offers tax credits to businesses that provide on-site child care or purchase slots in community child care settings. But these approaches have produced mixed results:

- The **federal Employer-Provided Child Care Credit** (IRS Code Section 45F) provides employers with a tax credit for up to 25 percent of qualified child care expenditures and 10 percent of qualified child care resource and referral expenditures, capped at \$150,000 per year.<sup>36</sup> Qualified expenses include both facility and operational costs for on-site child care; alternatively, employers can contract with licensed child care providers in the community.

However, few employers take advantage of this credit: Of all tax forms requesting corporate tax credits, less than 1 percent (fewer than 300 forms) claimed the credit.<sup>37</sup> Several reasons have been cited for this lack of uptake, including: the high cost and complexity of offering on-site child care; lack of awareness or understanding of the tax credit; lack of sufficient tax liability to claim the credit; credit size insufficiency to serve as an incentive; the

ineligibility of expenses for home-based child care, the type of care used by most families.<sup>38</sup>

- **Illinois' Employee Child Care Assistance Program Tax Credit** (Code Section: §100.2196) provides employers with a tax credit of 30 percent of the start-up costs of providing a child care facility to employees' children, plus 5 percent of the annual operating costs.<sup>39</sup> To qualify for the credit, employers must operate a child care facility, either independently or in partnership with another corporation(s). Similar to the federal tax credit, the Illinois credit is little-used. In fact, for Tax Years 2016 through 2018, a total of only 15 taxpayers claimed the credit.<sup>40</sup> The Illinois Department of Revenue does not have information on why the credit is not used more; however, other states have experienced similarly low levels of uptake regarding their own such tax credits, leading several of them to repeal the credits or let them expire.<sup>41</sup>

providing on-site child care,<sup>42</sup> it's not realistic to think we will move from that to widespread implementation. U.S. Department of Labor research shows only 11 percent of employees have access to any child care benefits through their employers and families least able to pay for care have even less access.<sup>43</sup>

While tax credits should be kept in place for those employers who provide on-site child care or who “purchase” slots, this is one small part in the set of solutions needed to address the child care crisis. Even as businesses add child care benefits to their arsenal of employee supports, this is not a panacea for the broader, systemic needs of the early childhood care and education

sector. Some limitation of employer based child care benefits include: an economic downturn could lead to the cutting back of those benefits; employer-sponsored benefits may grow existing inequities by excluding part-time workers, independent contractors and freelancers, parents who do not work, or workers of smaller organizations; and the continuity of care for young children may be impacted if a parent changes jobs and loses employer supported child care.<sup>44</sup>

Local governments and private businesses, like Effingham County and Stevens Industries, can make a substantial impact on their local child care landscape. But for long-term, sustainable expansion and

improvement of early childhood care and education, state and federal governments need to play their considerable part.

At the state level, Illinois has the report and recommendations of the bipartisan Early Childhood Funding Commission<sup>45</sup> (released in 2021), which would help move the early care and education system forward in three important ways: streamlining funding, centralizing governance, and increasing resources. We encourage the state to move further towards implementing the Commission's recommendations, especially with an emphasis on equitable investments in high-quality early childhood programs in underserved communities.

As an important step in that direction, Illinois has also undertaken a statewide effort to assess child care challenges and pursue solutions at the local level through Birth to Five Illinois.<sup>46</sup> As the work of this regional initiative moves forward, it will be important to find ways to respond to identified challenges through greater funding and technical assistance.

One way to support the development of early childhood care and education programs, both center- and home-based, would be to provide more technical assistance to prospective programs—including for businesses seeking to establish on-site care. This would help overcome one of the barriers to starting-up new programs: the complexity of the licensing and approval process. For example, a new initiative in Michigan, Our Strong Start, pairs child care entrepreneurs with a staffer from the state licensing agency to provide help with paperwork and obtaining inspections.<sup>47</sup>

Providing technical assistance, especially to home-based providers, would also help

address the child care “desert” challenges felt deeply in rural areas where families more frequently choose home-based child care options (family child care homes or family, friend, and neighbor care).<sup>48</sup> This is particularly true for families who utilize child care subsidies to access child care.<sup>49</sup> This choice is largely driven by the lack of child care centers in rural areas,<sup>50</sup> particularly for infants and toddlers.<sup>51</sup>

Taking active steps to increase child care options in rural areas through technical and start-up assistance would help restore some of the home-based child care slots lost over the last several years. Even before the coronavirus pandemic, Illinois saw a 25.5 percent drop in such capacity from 2010 to 2016.<sup>52</sup>

At the federal level, funding for early care and education needs to be prioritized further and extended, particularly as pandemic-era investments begin to expire. The Effingham County experience is a clear example of how federal dollars can be put to good use to increase child care availability, affordability and quality.

In addition, at both the state and federal levels, the compensation for early childhood educators needs to be significantly addressed. Otherwise, staffing challenges in the early childhood sector will hold back any other improvements from taking root.

Investing further in child care and early childhood education needs to occur at all levels with local, state and federal governments addressing the needs of the sector and supporting businesses in their own efforts to provide child care benefits. This is an all-hands-on-deck priority for the good of our workforce and economy, in which every participant has an appropriate responsibility and role to play.

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